#### 1 0 NOV 1975

MEMORANDUM FOR: Deputy Inspector General

FROM : Acting Director of Finance

SUBJECT: Evolution and Improvement of Financial

Control in the Agency

REFERENCE : Your Recent Verbal Request -

Same Subject

Attached is a paper which provides a brief overview of the evolution and improvements of financial controls in the Agency. We have not covered the budgeting policies and procedures because of Mr. Colby's succinct coverage of the subject in the attachment to of 10 October 1975.

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Acting Director of Finance

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OF/PS/: sk (10 Nov 75)

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## Evolution and Improvement of Financial Controls In the Central Intelligence Agency

A. Background - Aspects of Certain Financial Practices Which Evolved From CIA's Predecessor Organizations

A brief review of financial administration of the Strategic Services Unit (SSU) and the Central Intelligence Group (CIG) reveals "how we arrived where we are today" with respect to certain aspects of current financial practices in the Agency. CIA's current practice of categorizing obligations and expenditures as either "vouchered funds" or "confidential funds" depending on the sensitivity of the financial transaction is the same as that practiced by the SSU in 1945. The CIG (SSU's successor) issued in October 1946 a Special Funds Section Accounting Procedures which prescribed administrative procedures for disbursing and accounting for "confidential funds". This issuance (later superceded by CIA's Confidential Funds Regulations) classified posts, stations, missions, and offices as Class A - those served by a Special Funds Officer - or Class B if without the services of a Special Funds representative. Today, CIA installations are classified as Class A if served on location by an Office of Finance Certifying Officer. If no Office of Finance Certifying Officer is stationed at the installation it is classified as Class B or Class C. In October 1946, CIG issued instructions which required all financial transactions in support of its overseas activities to be charged to confidential funds. The Agency does likewise (except

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Regardless of how charged (whether to vouchered funds or confidential funds), the SSU and the CIG required, and the Agency continues to require every financial transaction to be authorized or approved by a designated approving officer, reviewed and accepted for payment or credit by an authorized certifying officer, and supported by appropriate documentation.

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# B. Bases for Development and Changes of Financial Control in the Agency

## 1. Legal and Federal Regulatory Bases

The Agency's systems and procedures for the financial control of its assets respond to the National Security Act of 1947, the Central Intelligence Agency Act of 1949, the Budget and Accounting Act of 1950, other applicable public laws, Comptroller General decisions, and CIA General Counsel opinions. For policy, procedures, and standards concerning financial administration the Agency adheres closely to the GAO Manual for Guidance of Federal Agencies, the Federal Travel Regulations, Department of the Treasury Fiscal Service issuances, Department of State Standardized Regulations, and other appropriate Federal regulatory issuances.

2. Authentication Required Prior to Adopting for Agency Wide Application New or Changed Financial Regulations and Procedures

Although the Director of Finance is responsible for the development of new or revised financial regulations and procedures, all such proposals are submitted for coordination and authentication to all Agency Deputy Directorates, the General Counsel, the Inspector General, and the Comptroller.

# C. Basic Concepts and Tools Utilized to Control and Report the Obligation and Expenditure of Agency Funds

## 1. Concepts

The basic concept employed by the Agency to control the obligation and expenditure of funds made available to it is that for every obligation or expenditure (whether vouchered or confidential funds are used) there must be:

(a) funds available for the purpose stated (b) authorization or approval by a designated approving officer (c) certification by an authorized certifying officer prior to payment or credit and (d) proper documentation for the transaction.

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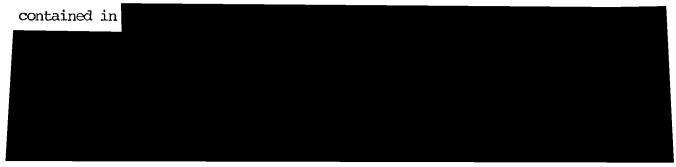
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#### 2. Guidance/Tools

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Overall policy guidance for the financial control of Agency assets is



Detailed financial procedures and instructions for headquarters use are contained in: Office of Finance Headquarters Handbook; Office of Finance Financial Coding Guide; Office of Finance Chart and Description of Accounts STATINTL and Support Supplements for Agency Instrumentalities.

- D. Examples of Actions Taken to Improve or to Facilitate Financial Control in the  $\overline{\text{Agency}}$ 
  - 1. Discontinuance of SSU/CIG Practice of Expending When Shipped Funds Sent to Overseas Installations

Procedures followed by both the SSU and the CIG allowed funds sent by head-quarters to overseas installations to be recorded as expenditures at the time the funds were shipped even though the funds had not yet been disbursed in payment for an official obligation. Shortly after it was established, CIA developed a procedure whereby such shipment of funds were charged to a financial accountability account of the installation. This change allowed funds shipped to installations to retain their true unexpended status until disbursed in payment for an obligation.

2. Stationing Office of Finance Certifying Officers at Certain Field Stations and Components at Headquarters

In the early years of the Agency's existence, all financial accounts were submitted to a central location at headquarters for final processing and financial certification. The time lag inherent in this procedure precluded

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the timely processing of accountings, delayed the settlement of accounts and the recording of expenditures. To improve this situation, the Office of Finance took two actions: (1) commencing in the early 1950's, authorized certifying officers were stationed at field installations having a level of financial activity which warrented such action and (2) authorized certifying officers were placed in major components at headquarters. Placed at the source of high-volume financial transactions, trained finance officers with certifying authority not only provide expert financial advice to the activity concerned but it also greatly expedites the financial reporting and recording process as financial data from the activity is in more finished form for entry into the accounting system.

#### 3. Establishment of Industrial Contract Audit Procedures

To obtain better financial control over Agency commitments made in the form of contracts with industrial firms, the Agency has developed procedures which include contractor financial capability surveys prior to award of contract, determining contractors' overhead allocation rates, interim and final payments to contractors, and final audit upon completion of the contract.

4. Issuance of Improved Procedure for the Financial Administration of Agency
Proprietaries and Other Instrumentalities

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STATINTL Headquarters Handbook as revised 29 October 1974, provides for use

within the Agency detailed instructions concerning requirements for the financial administration of Agency instrumentalities.

5. Development of the Financial Resources System (FRS)

In response to a need to have statistical and financial data more readily available for planning and controlling resources, the Agency developed the Financial Resources System. The FRS is an automated system which replaces a

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manual system previously used. Budget control is a subsystem of FRS and is designed to meet the following objectives: (1) Rapidly provide the user with current information; (2) filter information so that each level of management receives only that information which it should act on; (3) provide information on an exception basis and (4) provide information in a variety of formats.

# 6. Improved Financial Management Through Employee Training

Inasmuch as the effectiveness of any system depends on the performance of operation, the Agency stresses the need for continuing training of its personnel. The Agency provides several different ways for its employees to receive training in financial administration. Financial training offered within the Agency includes:

- (1) Financial Management Training Program Course
- (2) Information Science for Financial Management
- (3) Field Administration (Stresses Accounting)
- (4) On the job training at headquarters and the field.

Financial training sponsored by the Agency at outside facilities includes:

- (1) Paying tuition costs for approved courses at formal educational institutions.
- (2) Sponsoring attendance at conventions and conferences such as those held by the Association of Government Accountants.

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